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UNCLAS SECTION 01 OF 02 MASERU 000545

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SUBJECT: LESOTHO: TEXTILE AND APPAREL PRODUCTION

REF: STATE 114799

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11. SUMMARY: Despite taking a battering from intensifying global competition, Lesotho's textile sector remains vital for Lesotho's economy -- directly employing approximately 45,777 people in 2007. This sector has strongly contributed to aggregate demand (supported by strong consumption spending) in this nation, which has significantly driven the country's economic growth over the last three years. However, the removal of textile quotas worldwide threatens the sector's productivity, as decreased demand for Lesotho's products in the U.S. market has led to a significant decline in orders and prices. The end result has been changes in employment conditions to reduce wages costs and the closure of two factories. There has been no GOL response to this situation, but this may soon change as the textile sector is politically sensitive in the Mountain Kingdom.
END SUMMARY.

Stiff Competition, Two Factory Closures

12. Lesotho's textile industry weathered the 2005 expiration of WTO Multi-Fiber Agreement and even subsequently recovered most of its work force. The industry, however, has experienced a continuing erosion of its competitiveness in recent years. This erosion has resulted in a reduction in production output and prices. In conversations with seven local factories, managers noted decreases in orders under AGOA ranging from 40% to 65% between 2004 and 2007. A decreasing general demand for textile products in the United States also exerted an downward pressure during this same period. Many employers in the textile industry reported changing employees from fulltime to short-term contracts to reduce wages costs. These trends indicate the sector's high vulnerability to global competition - competition which will only increase as more quotas are removed on Chinese textiles next year. Thus far, two firms have closed due to insufficient orders (one in Maseru and one in Maputsoe). However, there are advanced plans to open an additional denim mill in Lesotho.

Data Details

13. The following data on Lesotho's textiles sector details the shift from 2006 (full year data) to 2007 (data from January to August only):

	2006	2007
	(full year)	(1/07-8/07)
Total Industrial Production	1446	898
(Mil USD\$)		
Total Textile/Apparel Production	434	269.5
(Mil USD\$)		
Textile/Apparel share of imports	17 %	19 %
Textile/Apparel share of exports	55 %	51 %
Exports in textile and apparel to U.S.	387	188.5
(Mil USD\$)		
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Total manufacturing employment	47,467	50,605
Total textile/apparel employment	45,000	45,777

14. Currently, the GOL has not announced any policy designed to deal with dislocation of workers in the textile sector. However, efforts aimed at enhancing Lesotho's reputation as an "ethical source country" for textiles continue. One of these initiatives, "Better Work Lesotho," is a five-year program aimed at enhancing firms' economic performance and improving their compliance with the ILO Declaration on Fundamental Principles and Rights at Work in the Textile/Apparel and Footwear Sectors. Joint efforts between government and industry to improve Lesotho's general investment climate continue. Two projects on private sector competitiveness - one implemented by the Ministry of Trade and Industry and another by the Millennium Challenge Corporation (MCC) - are also forthcoming.

Worries Dominate

15. COMMENT: The future erosion of AGOA trade preferences,

especially with the possibility of duty-free quota-free status for all LDCs, dominates local conversations regarding the future of Lesotho's textile industry. The industry seems to now understand that producing the lowest price commodity garments based on low labor rates is not sustainable in the long run, and that distinguishing the local industry as an "ethical source" may be a way to preserve some of the nation's declining market share. END COMMENT.
NOLAN